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SPEND SMART: FIX OUR BROKEN SCHOOL FUNDING SYSTEM

A CONNCAN ISSUE BRIEF

Spend Smart: Fix our broken school funding system

Introduction

Our elected officials have some big math problems to solve this year, from an unsustainable \$3.7 billion deficit to zero job growth.

Education is the most important investment we make in our state's future, but it's where we're getting the worst return on our money. Low-income students are further behind in Connecticut than in every other state, and even our highest performing students are behind the top students in Massachusetts.

It's time to change the way we deliver public education. Our system is systematically failing far too many Connecticut students who slip through our fingers every year. They can't wait any longer, and neither should we.

It's time for bold leadership and smarter investment decisions from our elected officials. Connecticut has two choices: we can perpetuate the current broken education funding system and hope for the best, or we can turn this challenge into an opportunity to do better. It's time for a smart school finance system that funds students based on their learning needs at the public schools they actually attend.

Connecticut's school funding system is broken.

Despite outspending almost every other state in the country on education, Connecticut distributes over \$7 billion a year by using an inefficient and fundamentally unfair formula.¹ Our current system of school funding is driven largely through the Education Cost Sharing (ECS) formula, which:

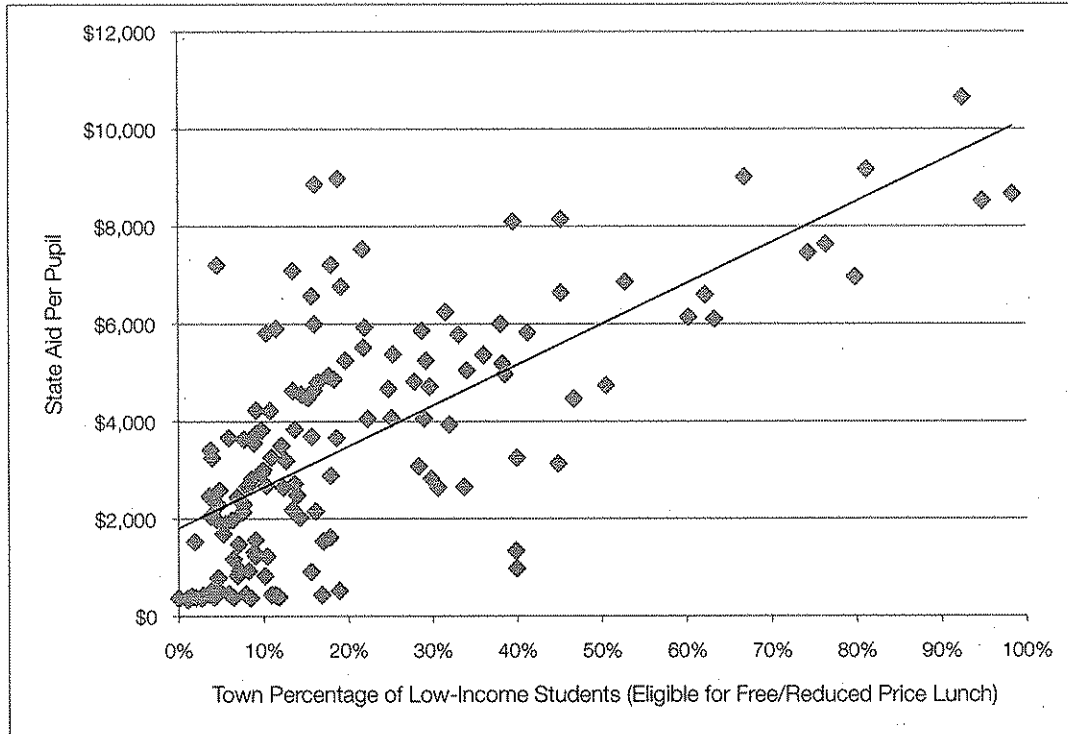
- **Funds students inconsistently and fails to direct resources where they are needed most.** The ECS formula is required to provide all school districts with a baseline, or foundation, amount of \$9,687 per student. In reality, however, the state funds this foundation amount at a far lower level: \$6,897 per student. The ECS formula also fails to provide similar amounts of state aid for children with equivalent learning needs. Figure 1 shows that students in towns with comparable wealth receive widely varying amounts of state aid, from under \$2,000 to over \$8,000 per student, even when they have the same learning needs.² For example, a student in Naugatuck receives a total of \$6,002 a year in state aid for his education. But if that same child lived in Bristol, he would get a total of only \$4,967 in state aid – even though his learning needs haven't changed and the cities have comparable wealth

¹ ConnCAN, *The Tab*. November 2009; <http://www.conncan.org/sites/default/files/research/TheTab.pdf>.

² Connecticut State Department of Education, 2008-09 general state aid figures.

and poverty levels.

Figure 1. Distribution of Current State Education Aid by Percentage of Low-Income Students

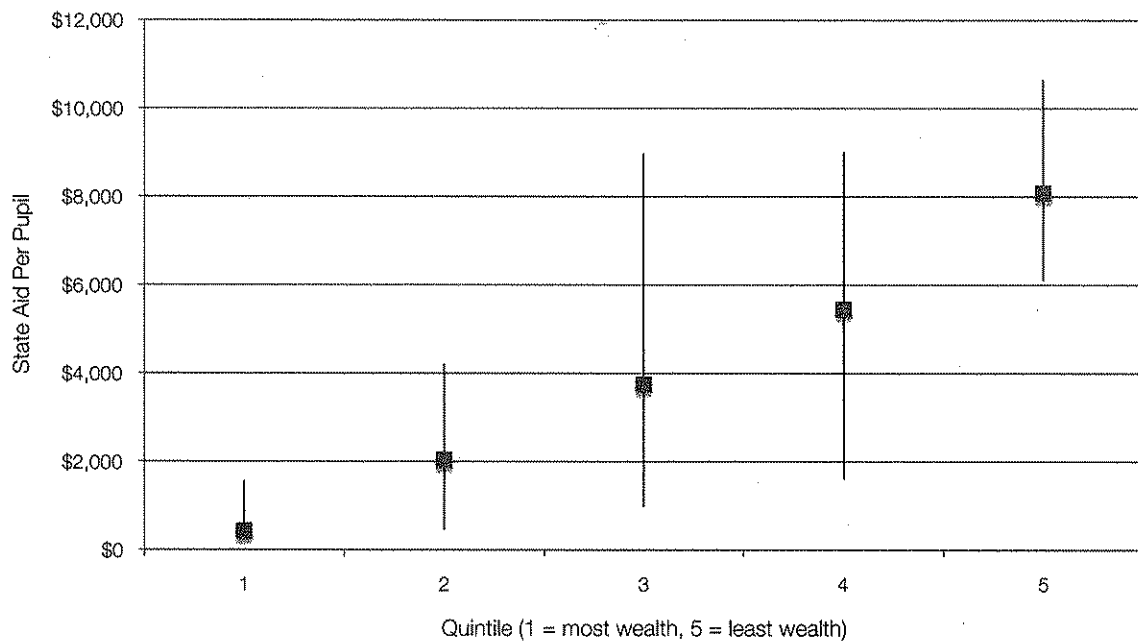


Our current system also fails to adequately account for differences in town wealth. Figure 2 shows that some of our poorest towns (towns in Quintiles 4 and 5) receive only as much or less per student from the state as our middle-class and wealthiest towns (towns in Quintiles 2 and 3) do. Moreover, our current system was designed to direct 33 percent more dollars to students in towns with high poverty, but actually provides only 11.5 percent more funding for these students.³ This places a significant burden on communities serving our poorest children.⁴

³ ConnCAN, *The Tab*, pg. 18.

⁴ Connecticut Conference of Municipalities, "A Tale of Disproportionate Burden: The special needs of Connecticut's poorer cities," 2010.

Figure 2. Distribution of Current State Education Aid by Town Wealth (red box = median)



- Restrains public school choice.** Many of our public charter and magnet schools are delivering some of the highest student performance in the state,⁵ and Connecticut families are increasingly demanding more education options.⁶ Between 2000 and 2009, student enrollment in nontraditional public schools increased by 63 percent. In the school year 2009-10, there were more students on charter school waiting lists (5,286) than students enrolled in them (5,170).⁷ The State Department of Education projects that magnet school enrollment will grow by 8,200 students by 2013. Meanwhile, magnet schools, charter schools, technical high schools, and vocational agricultural schools are all funded through separate line item appropriations in the state budget, and at differing levels that are not based on student need. For example, students at Connecticut's charter schools are funded at only 75 cents on the dollar compared with traditional public schools.⁸ This funding disparity unfairly penalizes students attending nontraditional public schools. It is also highly inefficient. Because Connecticut funds public schools of choice separately and does not account for students where they actually attend school, we

⁵ ConnCAN 2010 Top Ten Lists:

http://www.conncan.org/sites/default/files/ConnCAN%20Top%2010%20Lists%20_2010.pdf.

⁶ According to the Connecticut State Department of Education, between 2000 and 2009, enrollment in charter, magnet, and technical schools increased by 63%. In the school year 2009-10, charter schools enrolled 5,170 students and 5,286 students were on charter school wait lists.

⁷ Connecticut State Department of Education and Connecticut Charter School Network.

⁸ ConnCAN, *Connecticut's Charter School Law and Race to the Top*, <http://www.conncan.org/sites/default/files/research/CTCharterLaw-RTTT2010-Web-2.pdf>.

often pay twice for students in school choice programs: once in the district where the student resides and once in the school where the student is enrolled.⁹ This dual funding is careless and wasteful, and discourages healthy competition among schools to attract and retain students.

- **Discourages transparency, efficiency and improvement.** Taxpayers have a right to know how schools and districts use their tax dollars. Parents have a right to know whether their children's education is funded adequately and equitably. Yet Connecticut's funding system is anything but transparent. The formulas used to determine state aid to districts and schools of choice are difficult for both public officials and ordinary citizens to understand. Without transparency, it is also difficult for district, city, and state leaders to compare and share best practices.

Current "hold harmless" provisions allow districts to maintain outdated staffing levels and administrative structures even after enrollment has declined. Such mandates and regulations significantly increase education costs, limit how districts can use resources, and restrict the flexibility that districts need to respond to changes in funding.

In addition, the current system discourages districts from improving their spending practices. Under the current system, the state can simply reclaim any savings that the district achieves by finding efficiencies. As a result, districts have no incentive to pursue new systems. An updated funding system could give districts incentives to share services, collaborate, and economize.

Our current funding formula is an illusion. Connecticut needs a smart approach to school funding that puts students at the center.

⁹ ConnCAN, *The Tab*, pg. 28.

Table 1. Comparison of Current vs. Spend Smart Funding System

Desired Goal	Current School Funding System	Smart Student-Based System
Consistent and equitable distribution of school funding	Annual political wrangling results in district and school choice funding levels that inconsistently and arbitrarily subsidize some towns and students while disadvantaging others.	Each public school student drives a concrete amount of funding to the school he or she attends through a straightforward formula with clear decision points; lengthy phase in that allows the state to make smart adjustments over time; initial two-year planning period during which no funding shifts occur.
Sets and fulfills a clear foundation amount	Funds foundation amount at \$6,987, though legally set at \$9,687.	Requires an initial costing out study to set clear foundation amount and periodic follow-up studies to adjust this amount.
Consistently provides additional funding for students with extra learning needs across all public schools	Formula intended to provide 33 percent more dollars to high-poverty students, but actually only provides about 11.5 percent and does not do so across all public schools.	"Student Success Factor" provides a set percentage of the foundation amount in additional funds for students in poverty, as measured by free/reduced price lunch eligibility, and does so consistently across all public schools.
Consistently accounts for town wealth	Towns with comparable wealth and student needs receive state aid that can range from under \$2,000 to over \$8,000 per student.	"State Share Ratio" to accurately factor in both a town's revenue-generating capacity and a town's median household income to determine its overall level of wealth and ability to pay for education locally.
Functions as a clear and coherent system	Disparate funding streams for ECS and school choice options create a tangled mess in which similar students and similar schools receive widely varying amounts of state aid.	Consolidates the ECS formula, funding for magnet, charter and Open Choice schools, and the "base" Priority School District (PSD) grant into one system (it does not include PSD funds for after school, summer school, or school readiness). ¹⁰ Incorporates technical and vocational agricultural schools into this system after additional study to determine how best to account for the special resource needs of these programs.
Facilitates public school choice	Funds schools of choice on separate line items, so adequate funding does not consistently follow students to the public schools they actually attend; funds some choice options at a fraction of traditional public schools; often pays for same student twice.	Provides each student with at least as much funding as he or she is due under the funding formula, no matter what public school he or she attends.
Encourages transparency, efficiency, and student achievement growth	Opaque formulae; no common accounting practices; not responsive to shifts in student enrollment; insufficient flexibility or incentives for districts to adjust budgets and costs to seek efficiencies and boost student achievement.	Requires a common chart of accounts; clearly links per-pupil funding to actual student enrollment; grants districts much-needed flexibility from mandates to adapt and deploy resources creatively and effectively to meet the needs of students; and allows districts to retain any cost savings they incur.

¹⁰ These funding streams amount to \$2,122,821,710 in appropriated 2010-11 funds.

A smart funding policy.

We need a student-based school funding system that:

- **Gives the state a smart path forward** by using a straightforward formula (see Equation 1) with clear variables for foundation amount, state share, and weights for students with extra learning needs. If necessary, the value of the variables in the formula can be adjusted in a fully transparent way based on the state's ability to pay. The proposed changes can reduce the political wrangling that has previously occurred over education funding and create incentives to drive performance and improve student outcomes, rather than to continue inefficient practices.

Equation 1. Student-Based Funding Formula

$$\text{LEA's State Aid} = \text{State Share Ratio} \times \text{Foundation Amount} \times \left[\text{Total Students} + \text{Student Success Factor} \right]$$

- **Has the potential to direct more resources to a majority of students over time** by providing a lengthy phase-in period and clear decision points that will allow the state to make smart adjustments. Specifically, the proposal establishes the new formula right away, but holds current funding levels steady for two years and allows for a lengthy phase-in period. During the first two years, the state would conduct a "costing-out" study to determine the appropriate foundation amount, implement improved reporting and accounting practices (see below), and communicate with districts about what will happen under the new formula. The proposed formula would begin in the third year. Any gains in funding would be distributed evenly over seven years, and losses in funds would be distributed over 10 years. A Spend Smart system also provides an extra three-year phase-in to protect a very small number of districts that might lose more than three percent of the foundation amount in any given year.
- **Sets a clear foundation amount** that is earnestly implemented. The foundation is the base per-student amount that is used in the formula; it is considered the "core costs" to educate a student. As noted above, the current ECS legislation requires that the foundation amount be \$9,687; however, the actual amount has not even reached \$7,000, and it only applies to students in traditional public schools. Under a Spend Smart policy, the state would conduct a high-quality costing-out study in the first two years to identify the appropriate foundation amount based on actual costs and effective spending practices. The results of this study would be used to establish an honest, baseline foundation amount and apply it to all students in every public school (traditional, charter, magnet, etc.). The state would then conduct

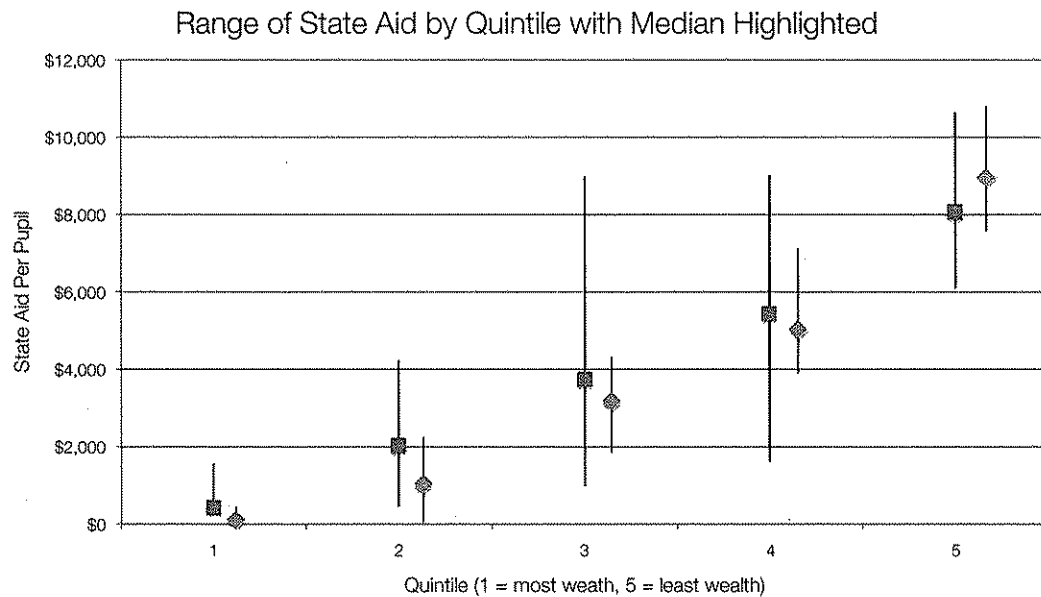
periodic studies to ensure the foundation amount remains at an appropriate level that the state has the ability to fulfill.

- **Provides additional funds for students with extra learning needs** and ensures that students with the same learning needs are funded consistently in all public schools across the state. The “Student Success Factor” is the additional dollar amount, or “weight,” that directs additional funds to students with extra learning needs beyond the foundation amount. It is a percentage of the foundation amount: for example, in addition to the foundation amount for every student, the formula could provide a weight for each student in poverty (students eligible for free/reduced price lunch) in any public school.^{11,12}
- **Accurately accounts for town wealth and distributes money more precisely** than our current system does, based on student need and town wealth. The “State Share Ratio” factors in both a town’s revenue generating capacity and a town’s median household income to determine its overall level of wealth and ability to pay for education locally, which would allow the state to account for differences in towns’ ability to pay for education. This State Share Ratio, combined with the Student Success Factor and other key variables, would direct education funding in a clear way that more accurately accounts for town wealth and student need than our current system does. Figure 3 shows how the proposed system would distribute funds more rationally and accurately according to town wealth than our current system.
- **Guarantees a minimum amount for every student so that students at all our** public schools receive a share of state aid. The proposed formula would guarantee each district a fixed percent of the foundation amount per pupil in state aid, regardless of town wealth.

¹¹ Eligibility for free/reduced price lunch is based on federal poverty guidelines for student with families at or below 185% of the poverty level. This data has been used in a variety of education programs, and the United States Department of Agriculture (USDA) requires a verification test of eligibility data that is conducted annually. Some stakeholders have expressed concerns about the validity of free/reduced price lunch data in Connecticut. Therefore, legislation must require verification or audits, in line with USDA requirements, of the free/reduced price lunch data. Legislation should also require the State Department of Education to work with other state agencies to obtain other poverty data to verify current measures, seek more accurate measures, and ensure that all eligible students are captured in the formula.

¹² The formula could also hypothetically provide weights for other student needs, such as English Language Learner status. However, data shared by Connecticut State Department of Education with the State’s Ad Hoc Committee to Study Education Cost Sharing and School Choice show that the measure for free/reduced price lunch also captures most English language learners. In other words, there is a very strong correlation between English language learner concentration and poverty concentration in Connecticut. In addition, keeping the formula simple allows a more generous weight for students in poverty.

Figure 3. Distribution of Student-Based Funding by Town Wealth (red = current system, blue = student based)



- Creates a clear and coherent system** by consolidating the largest pools of state education funding that apply to most children into one coherent formula that directs funding to the schools students actually attend. The proposed formula rolls the ECS formula, funding for magnet, charter and Open Choice schools, and the “base” Priority School District (PSD) grant into one system (it does not include PSD funds for after school, summer school or school readiness).¹³ The proposal would also include vocational-agriculture and technical high schools into the new funding system after an advisory council is convened to determine how best to account for the special educational programs and costs of these pathways. At the same time, specialized grants, such as the Sheff case settlement, special education Excess Costs, transportation costs, and most other categorical grants or expenses would continue as they have.
- Facilitates public school choice** by ensuring that each student is treated fairly and receives a consistent amount of funding, no matter what public school they attend. The proposed formula provides each student with at least as much funding as he or she is due under the funding formula. A Spend Smart policy is an integrated approach to choice funding that not only allows our promising charter, magnet, and other nontraditional public schools to continue to thrive, but could also incentivize schools and districts to create new high-performing public school options to attract students while meeting the demands for increased public school

¹³ These funding streams amount to \$2,122,821,710 in appropriated 2010-11 funds.

choice noted above. The Spend Smart proposal also establishes a district reimbursement fund to ensure that the movement of funds is scaled to the ability of districts with a net enrollment loss to achieve commensurate savings, recognizing that some districts may need time to adjust their budgets and practice to accommodate a loss of more than three percent of funding if significant numbers of students choose public schools outside the district. Districts meeting these criteria would qualify for the reimbursement fund for three years.

- **Requires a common chart of accounts** across districts so that budgeting and spending practices can be compared and analyzed more easily by all stakeholders. This common chart of accounts would be implemented in the first two years and would make school finance reporting consistent, transparent, and useful for decision making. During the first two years, the state would also create a new user-friendly and comprehensive financial reporting framework that would make district budget reporting and tracking easier.
- **Encourages districts to spend efficiently** by clearly linking per-pupil funding to actual student enrollment so that districts would be incentivized to share services, collaborate, and economize, while also ensuring that districts could retain or redirect earned savings.
- **Grants much-needed flexibility to districts** so they can deploy resources creatively and effectively to meet their students' needs. Such flexibility could yield not only significant cost savings, but also better student outcomes. For example, to achieve transparency in spending, a smart spending policy would require districts to use state education aid solely for educational purposes. At the same time, this policy would allow communities with high local contribution to their education budgets (e.g., where local funds make up at least 85% of education aid) and those whose educational programs are fully funded and that exceed certain achievement benchmarks to reduce their local contribution by up to 10 percent.

To achieve real flexibility, districts also need relief from restrictive contracts that prevent districts from making layoffs according to teacher performance. Current provisions require that the only factor that can determine teacher layoffs in the context of a budget crisis is seniority, or the length of time a teacher has been teaching. When districts are forced to lay off only their most junior teachers under this "last-in, first-out" policy, they have to lay off many more teachers to achieve the necessary savings and hurt student achievement by laying off teachers across a range of quality, rather than only the least effective teachers. (For more on this, see ConnCAN's issue brief, *Staff Smart*.)

The time for bold action is now.

Connecticut citizens and leaders might ask: in a time of financial crisis, wouldn't it be better to just stick with the current system, even if it's flawed, and wait for a better day to revisit the funding system? Absolutely not. Given Connecticut's educational, legal,¹⁴ and fiscal challenges, a smart, student-based funding policy to fix our school finance system must be a top priority. Sticking with the existing broken system – in the state with the nation's largest achievement gap – will have a devastating impact on the students with the greatest need, and will constrain opportunities for innovation in the delivery of public education in all of our communities. The time to fix our school finance system is *now*. We need a smart system that puts the focus squarely where it should be: on student need and student achievement.

A majority of Connecticut voters support a smarter system of funding Connecticut's schools. ConnCAN's 2010 Education Survey shows that nearly all voters (91%) agree that "Connecticut needs a simple, transparent, and fair state funding system that funds students based on their needs, regardless of what public school they attend." A large majority (75%) also agree that "state funding for public education should follow individual students to whatever public school they choose to attend, including magnet, charter, technical, and traditional public schools outside of their own district or neighborhood."¹⁵

This Spend Smart proposal is in line with the recommendations of other state policy groups such as the Connecticut Commission on Educational Achievement.¹⁶ The State Board of Education's Ad Hoc Committee to Study Education Cost Sharing and Choice Funding also agreed by majority vote on a set of design principles¹⁷ consistent with a student-based budgeting approach.

It's time to change the way we fund our schools. A student-based approach to school funding will help us spend our precious education dollars as effectively as possible so we can give all Connecticut students the education they deserve.

¹⁴ The recent Connecticut State Supreme Court ruling in the Connecticut Coalition for Justice in Education Funding (CCJEF) lawsuit against the State of Connecticut reaffirmed our state's constitutional obligation to provide a quality public education to every child. The CCJEF plaintiffs have already begun settlement talks with the state.

¹⁵ ConnCAN: "New Survey Reveals Connecticut Voters Want Change in Public Education"
<http://www.conncan.org/learn/research/achievement-gap/2010-conncan-education-survey>.

¹⁶ www.ctachieve.org.

¹⁷ These design principles are available at
http://www.sde.ct.gov/sde/lib/sde/pdf/board/minutes2011/minutes_adhoc_funding_012411.pdf.

ConnCAN School Finance Advisors

ConnCAN's work on this student-based school funding proposal has been guided by the advice and expertise of the following nationally recognized scholars and leaders in the area of school reform and education finance:

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